

Message Text

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ACTION SS-25

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC NIACT IMMEDIATE 4027

INFO AMEMBASSY JIDDA IMMEDIATE

C O N F I D E N T I A L CAIRM 4946

EXDIS

E.O. 11652: GDS

SUBJECT: CALL ON MINFIN ABU ISMAIL

REF: STATE 114365 AND CAIRO 4941

1. CALLED ON MINFIN ABU ISMAIL THIS MORNING TO DISCUSS A NUMBER OF POINTS. I FIRST TOLD HIM ABOUT UNDERSECRETARY ROBINSON'S UPCOMING VISIT TO CAIRO IF GOE WOULD FIND IT HELPFUL TO HAVE A STATUS REPORT OF OUR EFFORTS TO DATE. AS REPORTED CAIRO 4945, MESSAGE ASKING THAT WE EXPLORE POSSIBILITY OF EARLY TUESDAY MORNING MEETING ARRIVED WHILE I WAS WITH HIM AND SUCH A MEETING HAS BEEN SET. ABU ISMAIL LOOKS FORWARD TO UNDERSECRETARY'S VISIT. WHILE INDICATING HE HOPES THAT GOE CAN SOON BE INFORMED OF OUR "FINAL PLAN", HE UNDERSTANDS THAT MOST UNDERSECRETARY WILL BE ABLE TO DO AT THIS TIME IS GIVE A STATUS REPORT.

2. I THEN TOLD HIM ABOUT JAPANESE AMBASSADOR'S CALL A FEW DAYS AGO AFTER LATTER'S MEETING WITH ABU ISMAIL (CAIRO 4765). I DISCREETLY SUGGESTED THAT, WHILE WE UNDERSTOOD PURPOSE OF ABU ISMAIL'S COMMENTS TO JAPANESE AMBASSADOR, I THOUGHT HE WOULD AGREE THAT IT IS BEST AT THIS STAGE TO AVOID DISCUSSING SUBJECT WITH OTHER DIPLOMATS. DOING SO PREMATURELY COULD BE HARMFUL TO OUR MUTUAL DESIRE AND INCREASE DIFFICULTY OF ORGANIZING DONOR ASSISTANCE. I TOLD ABU ISMAIL I HAD MENTIONED THE GENERAL SUBJECT TO PRIMIN SALEM YESTERDAY, BUT HAD NOT REFERRED TO THE JAPANESE AMBASSADOR'S CALL. INSTEAD, I HAD CITED THE

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BRIEFING GIVEN AFTER THE LAST CABINET MEETING TO THE PRESS

AND THE SUBSEQUENT UNHELPFUL PRESS AND DIPLOMATIC QUERIES TO ME GENERATED BY THAT BRIEFING. IN SOMEWHAT EMBARRASSED FASHION ABU ISMAIL EXPLAINED JAPANESE AMBASSADOR HAD BEEN IN TO DUN HIM ABOUT UNPAID OBLIGATIONS, PROMPTING MINFIN TO ASK THAT GOJ SHOW UNDERSTANDING OF EGYPT'S CURRENT LIQUIDITY PLIGHT AND ASSIST IN ENABLING GOE TO OVERCOME IT. HE HAD MENTIONED USG IS LOOKING FOR WAYS TO HELP. JAPANESE AMBASSADOR, ACCORDING ABU ISMAIL, HAD SPECIFICALLY ASKED WHAT USG INTENDS TO DO AND WHETHER JAPAN WILL BE APPROACHED. ABU ISMAIL CLAIMS HE RESPONDED IN GENERAL TERMS ONLY, AND REGRETS JAPANESE AMBASSADOR'S SUSPICIONS AROUSED TO POINT WHERE HE SHOULD HAVE APPROACHED ME. I REITERATED WE APPRECIATE SITUATION, BUT REMINDED ABU ISMAIL OF OUR DESIRE TO TRY TO ORGANIZE A CORE GROUP OF US, IRAN AND SAUDI ARABIA BEFORE APPROACHING OTHERS. HE AGREED RE IMPORTANCE AVOIDING PREMATURE DISCLOSURE OF OUR CONCEPT.

3. I NEXT TOLD ABU ISMAIL ABOUT OUR PROPOSAL TO PRIMIN SALEM YESTERDAY THAT GOE ASK IBRD ADVICE AND HELP TO ESTABLISH AN EFFECTIVE FOREIGN EXCHANGE MANAGEMENT SYSTEM, WHICH COULD CONTROL IMPORTS IN TERMS OF PRIORITIES, TIMING ETC. PRIMIN HAD AGREED TO STUDY THE MATTER AND WOULD DOUBTLESS BE DISCUSSING IT WITH ABU ISMAIL. AS THE RESPONSIBLE MINISTER, I THOUGHT ABU ISMAIL WAS MORE AWARE THAN MOST OF HIS COLLEAGUES OF THE NEED FOR SUCH A SYSTEM AND I HOPED HE WOULD SUPPORT IT. ABU ISMAIL RESPONDED THAT EGYPT ALREADY HAS A FOREIGN EXCHANGE CONTROL SYSTEM, BUT RECENT SPATE OF IMPORTS HAS PUT IT OUT OF KILTER. I SAID IT IS PRECISELY FOR THIS REASON THAT A MORE EFFECTIVE FOREIGN EXCHANGE MANAGEMENT SYSTEM IS NEEDED. WITHOUT IT, THE PROBLEM WILL BECOME EVEN WORSE, AND, EQUALLY IMPORTANT, POTENTIAL DONORS LIKE IRAN AND SAUDIA ARABIA WILL BE RELUCTANT TO HELP. I NOTED THAT IRANIANS AND SAUDIS HAVE ALREADY EXPRESSED SOME CONCERN TO US ABOUT THE LACK OF SUCH A SYSTEM. BOTH WITH OUR CONGRESS AND WITH IRAN AND SAUDI ARABIA OUR EFFORTS TO BE HELPFUL TO EGYPT WILL BE STRENGTHENED IF WE CAN SAY GOE IS WORKING WITH IBRD TO ESTABLISH SUCH A SYSTEM. ABU ISMAIL NOTED THAT IBRD TEAM IS NOW HERE AND INDICATED AGREEMENT IN PRINCIPLE, SUBJECT TO THE PRIMIN'S CONCURRENCE, TO DISCUSS IT WITH THE MISSION. I STRESSED THAT WE FULLY RECOGNIZE EGYPT'S POLITICAL PROBLEM BUT OPINED IT SHOULD BE CONFIDENTIAL

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POSSIBLE TO DEVISE A SYSTEM THAT IS BOTH POLITICALLY AND ECONOMICALLY ACCEPTABLE.

4. COMMENT: ABU ISMAIL'S REACTION IS GRATIFYING. HE AT LEAST UNDERSTAND THE PROBLEM, EVEN IF, AS MINFIN, HE MUST OFTEN ARGUE THE MERITS OF THE PRESENT SYSTEM. I UNDERSTAND PRIMIN IS SCHEDULED TO MEET WITH HIS FIVE ECONOMIC MINISTERS, INCLUDING ABU ISMAIL, LATER TODAY, AND I SUSPECT THAT SALEM WILL AT THAT

TIME BROACH THE SUBJECT AND ASK FOR THE MINISTER'S VIEWS. WE MAY
EXPECT MINISTERS OF TRADE AND SUPPLY AND PERHAPS OTHERS TO OPPOSE,
AND MUCH WILL DEPEND UPON (A) PRIMIN'S APPRECIATION OF NEED FOR
SUCH SYSTEM, LEADERSHIP AND RESOLVE AND (B) EXTENT TO WHICH ABU
ISMAIL ARGUES FOR SUCH A SYSTEM. BOTH ARE UNCERTAIN, BUT WE
SHOULD KNOW MORE BY THE TIME UNDERSECRETARY ARRIVES.
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